

SUBJECT

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cc France: July 78: Relation  
Contracts/Euro Pd: PE 11: Budget  
Euro Pd: PC 3: CAP  
For Pd: PE 2 East/West  
Source: R.S. CFB/DAET. Relation

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRESIDENT  
OF THE FRENCH REPUBLIC, M. FRANCOIS MITTERRAND, AT 10 DOWNING STREET  
ON 10 SEPTEMBER 1981 AT 1600 HOURS

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PRESENT

The Prime Minister  
Mr. M. O'D. B. Alexander

President Mitterrand  
M. Vedrine

General

After an exchange of courtesies, President Mitterrand said that he hoped his visit marked the beginning of a period in which the two Governments could speak frankly and productively on the problems facing them. The bilateral relationship was making real progress. There was a growing feeling of confidence, although, of course, this improved atmosphere could not altogether displace the reality of events. He thought that perhaps the discussions might start with general international problems in which both countries were involved; go on to deal with the problems of the Community, where there were difficulties both between France and the United Kingdom, and with their other partners; and end with a discussion of the bilateral relationship where there was much that was positive. One could equally well take these problems in reverse order. What mattered was that they were all covered.

European Community

The Prime Minister proposed that it might be helpful to start with a discussion of the Community. After all both the Governments had surrendered many powers, e.g. in the field of agriculture, to it. There were major problems to be dealt with in the coming year, e.g. the CAP, the reform of the Budget, and the CFP. All these problems needed to be dealt with as soon as possible. They did not become any easier with the passage

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of time. It would be a great help to know President Mitterrand's mind on them. A date had been set in Luxembourg for further consideration of the 30 May Mandate and of the CAP, i.e. early September. The President had said then that by this time he would have had time to study the problems and <sup>would</sup> know the direction in which he wished to go.

President Mitterrand said that the problems of the European Community had to be examined as a whole. It was, of course, permissible to study the problems of the CAP. They could, if necessary, be discussed in isolation. But if one was to draw up a balance sheet of advantages and disadvantages for any member country, then the agricultural problems could not be taken in isolation. The French Government had no wish to evade the problems of the CAP. But the Mandate referred to the whole range of activities of the Community. France had advantages in some spheres and disadvantages in others. He could not accept that those areas where France enjoyed advantages should be picked out and the others ignored. That having been made clear by way of a preliminary statement, he was in favour of a discussion of the agricultural issue.

The positions of the French and British Governments were, of course, different in regard to the CAP and the 30 May Mandate. The British Government wished to establish the principle of the juste retour, i.e. that member countries should be entitled to draw advantages from the Community in exactly the same proportion as the effort they contributed. In relation to the CAP, Britain contributed more than it got back. France was hostile to the principle of the juste retour. To implement that principle would be to render the European Community a nullity. It implied that the Community should be regarded as a confederation within a free trade area. The British, of course, disliked indulging in broad political generalisations of the kind which he had just made. But it was important to remember the distance which separated Britain and France on this concept. Britain

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wanted the juste retour to be a permanent feature of the Community. He could not accept this. The juste retour could be useful. For a year or two agreement on a budgetary mechanism was permissible. But it could not be a permanent policy.

The Prime Minister said that she would never describe her policy as being to seek a juste retour, i.e. a situation in which member countries were getting out precisely what they had put in. Her policy was to seek a situation where, when the balance sheet was drawn up, the total budgetary result should be seen to be a flow of resources from the richer members to the poorer members. Countries like Ireland, Greece and Italy must be seen to benefit from membership. But those countries which were in per capita terms, among the richest, should not, as at present, be the beneficiaries. One had to achieve a final budgetary outcome where the better off were paying and the less well off were receiving. We should be aiming to establish a principle of equity of this kind. This was not happening at present. Germany was the biggest contributor, the United Kingdom was the second largest and France was contributing very little. Unless an equitable system could be achieved, conflicts would undoubtedly ensue. She wished to stress the importance which she attached to the Community. It had locked together countries which in the past had fought each other. Such hostilities must never happen again. The Community was playing a vital role in bringing much of Europe closer together.

President Mitterrand said that there was much in the Prime Minister's presentation with which he could agree. The European Community was a political necessity. All its members had drawn profit from it. There had, of course, been problems and crises but the economies of the members had grown, thanks to the Community. The further development of the Community posed no problem for France. He had therefore been glad to hear the Prime Minister's words.

The Prime Minister's remarks about juste retour had been a very useful corrective. The application of juste retour

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to the poorer members would certainly make more difficulties for them. He agreed that there had to be a better balance as between the various member countries. The problem was how to establish this within the CFP and the Community's other areas and policies. There would have to be much discussion on the basis of member countries' mutual requirements and individual problems. If the Federal Republic felt it was doing too much and the United Kingdom felt it was being hard done by, this must be examined. He considered that the examination would show that things balanced out. France was, of course, a larger producer of agricultural products than either the Federal Republic or the United Kingdom. On the other hand she did less well where industrial products were concerned. France prospered in those areas where the character of the workforce and the quality of her natural resources favoured her. On the other hand, she did not have the United Kingdom's commercial genius. The discussion of the Community's problems could not concentrate only on those areas where France was benefiting.

The Prime Minister said that if things went on as at present, the Community would run up against a budgetary crisis. The CAP would produce ever greater surpluses and would take up ever more of the budgetary resources of the Community. At the same time, the Federal Republic and the United Kingdom would stand firm on the 1 per cent VAT ceiling. It was neither sensible nor intellectually justifiable to spend such a large proportion of the Community Budget on agricultural surpluses which the Community could not eat, which it had to dispose of at considerable cost, and which dislocated the economies and agricultural industries of third world countries. President Mitterrand said that a brake had to be imposed on the production of surpluses. It posed too great a burden on France and her partners. The Prime Minister's reasoning was irrefutable. The question was, in practical terms, what to do.

/ The Prime

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The Prime Minister asked whether French dairy farmers were intent on increasing their yields and therefore producing ever larger surpluses. British dairy farmers were highly efficient but did not produce surpluses. They could, of course, produce a good deal more than at present. Britain had tackled the problem of small farmers many years earlier by encouraging them to combine. It was difficult to solve the problems of the Budget without tackling the CAP. Of course, farmers had to be provided with a decent living. But there had to be a reasonable budget and there had to be an agricultural policy which was reasonable in relation to the rest of the world. Of course, these problems could not be solved here and now. But each member had to feel that it was being fairly treated by its partners. She and the President were both politicians who knew what could and could not be done.

President Mitterrand said that his position was in many respects the same as that of the Prime Minister. He had no wish to encourage the production of surpluses. He had to point out, however, that the surpluses often occurred because producers outside the Community were able to get their products into the Community too easily and too cheaply. Soya was a case in point and a source of serious competition. Another example was provided by beef, the imports of which were unbalancing the Community's internal production. The problems could not be resolved in a year or two. Changes in the structure of production would be required but the Prime Minister's basic approach was right.

It was necessary to distinguish between the immediate problems, such as those relating to wine and milk, and the medium and long term problems of surplus production where fair and equitable solutions should be sought. In this latter context, President Mitterrand said he would be glad if a solution could be found which did not involve raising the 1 per cent VAT ceiling and imposing higher taxes on his electorate. As regards wine, France had been forced to take action because

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the problem was "threatening to strangle us". The measures taken were certainly legally contestable and might well have contravened Community regulations. One could also reproach the Italians, e.g. on the origins, quality and quantity of the wine they were exporting. In any case, the French Government could not have contemplated a farmers' revolt which might well have resulted in bloodshed. As a result, he had had to adopt a position which was opposed to his political philosophy. He accepted that the question of milk surpluses might be similarly urgent for the United Kingdom. There was a need to get round a table to discuss all these matters. Ways must be found to limit the production of surpluses and to avoid imbalances. France was ready for discussions. President Mitterrand said that he was a realist. He recognised that German acceptance of the present budgetary situation could not last. France would have to make proposals.

The Prime Minister said that everyone understood the need to deal with short-term problems. She and the President were both in politics. But what needed to be considered now was whether longer-term structural adaptation was not required. The CAP had shown itself to be insufficiently flexible. No-one welcomed the surpluses or the percentage of the budget being taken by the CAP. The time had come when both the structure of the CAP and the proportion of the Budget taken by the CAP had to be discussed. In the period of two years since she had been in office she had seen these problems repeatedly postponed because they were not urgent. They had to be tackled while there was still time and that meant a start in September. President Mitterrand said that although on some questions his point of view and that of the Prime Minister differed, her overall approach was just what he would have hoped for. His safeguard measures on wine had resulted from the non-observation of Community rules by Italy. The discussion of the CAP must take account of the entry of agricultural products from outside the Community. That said, he was anxious to see the reform of the

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CAP. It might not be the same reform as the Prime Minister had in mind. But it certainly was the same discussion and it was a discussion from which he wanted a result. The Prime Minister wanted to begin in September. So far as he was concerned, the sooner the better - although in practical terms September might prove to be a little early. He would be entirely happy to begin in the European Council meeting in November. If the discussions could be got under way before November, whether between Heads of Government or between others, he would be entirely content.

The Prime Minister said there were many other problems beyond those contained in the 30 May Mandate. Agreement on the Common Fisheries Policy had to be reached. So long as it remained unresolved, each Government was paying subsidies to its fishing community because they were being prevented from fishing normally. (President Mitterrand indicated that he agreed.) HMG wanted to see whether progress could not be made in developing a Community policy on insurance. Britain and France had a shared interest in the Multi Fibre Arrangement because of their textile industries. Britain wanted to see the Community developing a more effective policy for negotiating with the Japanese, whose technique of focusing on particular trading sectors caused such difficulties. President Mitterrand said he would be happy to see a start made in bringing the positions of France and Britain closely together on insurance and on the MFA. The CFP had been discussed many times in the past. France's defence was that what was happening now was consistent with the commitments entered into by France in the past. As regards Japan, he endorsed the Prime Minister's broad objective. However, Britain's own practice towards Japan had been too liberal. We had opened our market, more particularly for cars, excessively and allowed exports into the Community to a degree which was dangerous for all members. None the less, he would be happy to see this issue, like the others, discussed. The Prime Minister said that our trading policies were very liberal and as a result we had been taking in more imports than others. We had agreed that the negotiation with the Japanese should be conducted by the European Commission or at least that

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they should keep a close watch on the level of Japanese imports. But the Commission did not seem to be moving sufficiently rapidly. Because of the Community, we were, of course, inhibited from negotiating with the Japanese on a country-to-country basis and therefore had been negotiating on an industry-to-industry basis. This had resulted in widely varying situations in the various member countries. It had strengthened the case for Community action.

President Mitterrand said that he and the Prime Minister were agreed on the need for joint discussions on the MFA, on a Community policy on insurance and on the need for a Community policy on trade with Japan. These were all positive initiatives. As regards the Common Fisheries Policy, France would never refuse discussion. He recognised that the United Kingdom, an important partner whom he respected, had every right to raise the question. But there were earlier agreements in force and France had to defend its interests. As regards the 30 May Mandate, he was happy to open discussions with France's other partners in the Community on the basis which he had already described. On the reform of the CAP, which likewise should be discussed in the larger frame of the development of the Community as a whole, he would be happy to see preparation begin immediately after the present meeting with conversations between Ministers and officials. He was, in short, ready for an all-embracing discussion as soon as possible. He would be looking for progress in the direction of greater justice between the members of the Community. He did not wish to delay matters in any way.

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Bilateral Relations

President Mitterand said that he thought France and Britain could give more weight to the Community if they were able to work more closely together, perhaps also with the Federal Republic. For instance, Britain was very advanced in many areas of technological research. We had achieved many major successes. It sometimes seemed a pity that they were not better used. Britain's internal market was too small to allow full exploitation of her innovations. The Community, of course, offered a much larger market. France and Britain together could create more openings. Britain would be in the lead but France hoped to be able to profit from what Britain had done. One example was provided by Rolls Royce. Their aero engines were the best available but France was working with other countries. She had usually collaborated with the American company General Electric. She might be prepared to give up that collaboration. The Airbus was an admirable machine but its present market was not large enough. There was a risk of one or other Government entering into parallel developments with Governments outside the Community before they had fully exploited the internal possibilities. The plans of the two Governments in the field of telecommunications could be brought closer together. The British computer company, ICL, had the best range of large computers in Europe. This was of great interest to France, whose industry produced smaller computers. But the two industries and the two markets should be complementary. This was the sort of area where dynamic support from Governments might make a great difference. Discussions so far had been inadequate. Likewise, the work of the two countries in tooling in the car industry ought to be complementary but both sides had been excessively timid in the past. Neither Government wished, in the present economic crisis, to have to lay out more money than was absolutely necessary. Therefore each had to be prepared to exploit what had been already done by the other. The markets were waiting to be opened up. This was an extra dimension which needed to be added to the discussion of reform of the CAP. The areas he had mentioned were of course only examples.

The Prime Minister said that she would want to examine President Mitterrand's ideas urgently. The two countries were of course already accustomed to cooperation, eg in the production

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of defence equipment. In some of the areas mentioned by the President, eg the Airbus, cooperation was of course well established. There were also other aspects of cooperation to be borne in mind. For instance in relation to Arabsat, for which a contract had recently been awarded, the Anglo/French tender had been rejected in favour of a tender submitted by a Franco/US competitor. Clearly there was a possibility of closer collaboration where satellite technology was concerned. The same went for the work of the European Space Agency where we had the impression that France had on occasion chosen to work with the Federal Republic rather than through the Agency. Where computers were concerned, Britain had, at considerable expense, kept an independent European capability in existence. The Government was taking a considerable interest, as was the French Government, in the introduction of computer training into school curricula. She would be asking the responsible Ministers to go into all these matters. She would like to see more cooperation between the two countries and more concrete proposals for such cooperation. President Mitterrand said that he wished to make it clear that he was not reproaching the United Kingdom for the present level of cooperation. France also should have shown more initiative in the past. Each country on its own was too small. There was a vast field which should be exploited. The Prime Minister said that she agreed that the present market was too restricted. It was the market which had to be planned.

#### Arms Control

The Prime Minister said that she regarded it as vital that the deterrent capabilities of Britain and France should remain entirely outside the TNF negotiations. President Mitterrand said he absolutely agreed. The wish of the Russians to drag the British and French deterrents into the negotiations was clear. Earlier in the summer, on the day that Pravda had attacked the French Government brutally for its defence statements and defence policy, the Soviet Ambassador had called on President Mitterrand to deliver President Brezhnev's greetings. The Ambassador had gone on to say that President Brezhnev regarded President Mitterrand's statement on security in Europe as very sensible and that he agreed about the need to examine the military balance in Europe. This

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/ last phrase

last phrase had been repeated by the Ambassador no fewer than four times despite the fact that on each occasion he had been corrected by President Mitterrand who had pointed out that what was at issue was the global military balance. After the interview, the Ambassador had told the press on the steps of the Elysee that he had been very happy to see that President Mitterrand agreed about the need to examine the military balance in Europe! The Prime Minister said that it was essential that neither Government should fall for the Soviet line. President Mitterrand said that the fact was that neither country was a super-power and had no margin for negotiation. They could not give up part of their deterrent forces in any negotiation because to do so would bring them below the "threshold of security". Neither country wished to become a football between Moscow and Washington. This was another reason for the two countries to have a close and useful relationship. The Prime Minister said it was clear that both countries intended to pursue a very robust line.

#### Poland

The Prime Minister said that the situation in Poland had become more difficult since she had last met the President. Solidarity's appeal to workers in other East European countries could only heighten the concern of the Soviet Union about the future of communism in Poland and might thus trigger off undesirable developments in Poland itself. President Mitterrand said that as seen from the Soviet Union, the biggest threat was undoubtedly the possibility that workers in East Germany, Romania, Czechoslovakia and elsewhere would be infected by what was happening in Poland. Some of the <sup>East</sup>/European Heads of State were now more savagely critical than the Russians themselves. The evolution in the attitude of President Ceausescu - whom President Mitterrand knew well - was striking and serious. Clearly President Ceausescu, who had his own economic problems, felt threatened.

President Mitterrand said that the view he had expressed in Luxembourg had not changed. The decisive factor was the state of the Communist Party in Poland, not of Solidarity. The Soviet Union would not intervene militarily so long as the Party was loyal and

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solid. Latterly its attitude had seemed, if anything, to become harder. It had given new commitments to the Soviet Government. So long as it continued to resist Solidarity, military intervention was not a real possibility. This was a harsh paradox. The Prime Minister commented that the Party still seemed to be in charge but Solidarity had been suggesting that the Party was not representative of the Polish people. President Mitterrand agreed but added that the Party still held the levers of power. It might, of course, have already been more undermined than he knew. If it were to collapse, that would be the moment when an adventure might take place. It would/<sup>be</sup> the alarm signal. If Solidarity's bold appeal to workers in other East European countries had not triggered Soviet intervention, it was because the Russians still thought the Communist Party had a stranglehold on the situation. He did not want the Party to grow stronger. That was the dilemma.

The Prime Minister said that it was a very ironic situation. Meanwhile, the economy declined and the West kept pouring in money and food. Perhaps before more was done, there should be an examination of Poland's long-term prospects and of the consequences of giving more aid. President Mitterrand agreed that the right moment had come to do this. We could not refuse Poland the means of survival. But we might end by giving the Soviet system nourishment. One should not exaggerate but there were obvious contradictions in the situation.

The Soviet hesitations about intervening in Poland also owed something, President Mitterrand considered, to Moscow's doubts about the international situation. They were still concerned about the situation in Afghanistan. They were holding forces in reserve because of the confused position in Iran. They were anxious to open arms control negotiations with the West. All these pre-occupations would be greatly complicated by an invasion of Poland. Moreover, the Soviet economy was in a worse position than those of Western countries.

The West should engage in a more precise examination of the reality of the East/West military balance. We needed to know how far to push our re-armament. President Mitterrand said that

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he approved the American intention to modernise their defences and to re-establish the military balance. But to what degree? In both Luxembourg and Ottawa there had been a lack of precision in our analyses. He had been conscious of the same lack of precision in a long discussion he had recently had with Herr Brandt. He (President Mitterrand) was not simply the partisan of war and Herr Brandt that of peace. Nor was he the partisan of re-armament and Herr Brandt of negotiation. It had emerged like this because the analysis was inexact. He was due to discuss all these matters with the Bureau of the International Socialist Movement on 25 September. Chancellor Schmidt would be doing the same on 8 October. He was anxious that the Prime Minister should be kept in the picture about this evolving discussion.

The Prime Minister said she would be very grateful if President Mitterrand could do this. She was much preoccupied with the attitude of certain members of the SPD. President Mitterrand said that the evolution of West German opinion was one of the principal uncertainties in Europe today. One leading member of the SPD had said to him recently that the Russians were more in favour of rearmament than was the United States. Another had said it was better to be red than dead. It was important to bear in mind the Germans' particular position. They had no nuclear weapons. Their country was full of arms and explosives. They did not wish to be a battlefield. This was a subject which would have to be dealt with. The Prime Minister commented that the Russian propagandists had been very active. The arguments of the West had not been advanced with sufficient vigour. President Mitterrand said that the West's willingness to negotiate once our defence capability had been updated was an important element in our propaganda. We must of course be certain that the military situation was in balance or even that we were stronger than the other side. But, that said, we should never refuse negotiations. To refuse negotiations was to play into Soviet hands. The Prime Minister said that she fully agreed.

President Mitterrand said that he had been very happy with his talk with the Prime Minister. A good start had been made.

/ The two partners

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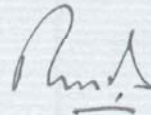
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The two partners were advancing. The process must continue but with more precision. The members of the two Governments should now continue to explore the various fields with a view to taking rapid decisions in the Community. The Prime Minister agreed.

The meeting ended at 1800 hours.

A handwritten signature in black ink, appearing to be 'P. M.' with a horizontal line underneath.

11 September 1981

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